

Issued Quarterly

September 2004

California State Board of Equalization P.O. Box 942879, Sacramento, CA 94279-0001

Common problems discovered in audits

How should you document your sales for resale?

If you make a sale for resale, you should obtain a timely resale certificate from your customer in order to document the sale as nontaxable. Just having a copy of the customer's seller's permit is not enough to support the resale.

What information is needed in a resale certificate?

A resale certificate may be in any form, such as a note, letter or memorandum. However, it must contain the following information:

- The name and address of the purchaser.
- The number of the seller's permit held by the purchaser (if the purchaser is not required to hold a California seller's permit, see *Note*).
- A description of the property being purchased.
- A statement that the property is being purchased for resale. The certificate must contain the phrase, "for resale." Terms such as "nontaxable" or "exempt" are not sufficient.
- The date of the document.

• The signature of the purchaser, purchaser's employee, or authorized representative of the purchaser.

Note: A business may not be required to hold a California seller's permit (for example, it may not make sales in this state). If you are selling to a purchaser who is not required to hold a seller's permit, but wishes to make a purchase using a resale certificate, the purchaser must indicate on the certificate that he or she does not hold a California seller's permit and why a permit is not required.

Timely acceptance

To be valid, a resale certificate must be submitted on a timely basis. This means that it must be taken at or prior to the delivery of the property to the purchaser, before you bill the purchaser for the property, or at any time within your normal billing and payment cycle.

For more information, see

- Regulation 1668, Sales for Resale
- Publication 103, Sales for Resale
- Publication 42, Resale Certificate Tips

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Retail sales to local and state government are taxable

Sales to the U.S. Government or to some of its agencies and instrumentalities are exempt from tax. Unfortunately, retailers sometimes take this to mean that sales to *all* government agencies are exempt.

In California, there is no general "government" exemption—retail sales made to the State of California or to cities, counties, and special districts (such as irrigation, fire, and school districts) are not exempt. Sales to these agencies should be treated like any other retail sale. That is, you should report them under total sales and then claim any deductions that may apply (for example, charges for repair or installation labor).

Are you looking for Schedule T or TE?

To make reporting easier, we have removed schedules T and TE (BOE-531-T and BOE-531-TE) from the return packages of taxpayers who don't routinely use the forms. If you need either schedule and didn't receive one, please download a copy from our website or call our Information Center.







Basic sales and use tax classes offered in local offices

You may enroll in a free basic sales and use tax class offered by some of our local offices. You should call ahead to find out whether your local office conducts a class for beginning sellers (local offices are generally listed in the government pages of your telephone directory, under State of California, Equalization, Board of). You can also check online at www.boe.ca.gov/cgi-bin/tax_class.cgi.

Torrance District Office closed

The Torrance District Office closed permanently on August 19, 2004. If your account was previously maintained at the Torrance office, your account has been transferred to the

Culver City District Office 5901 Green Valley Circle Suite 200 Culver City, CA 90230-6948 310-342-1000

You may also visit our other nearby locations:

Norwalk 12240 E. Imperial Highway Suite 200 Norwalk, CA 90650-8397 562-466-1694

West Covina 1521 West Cameron Ave. Suite 300 West Covina, CA 91790-2738 626-480-7200

Long Beach 100 West Broadway, Suite 305 Long Beach, CA 90802-4431 562-901-2483

New: Out-of-state purchases of vehicles, vessels, and aircraft must meet a 12-month test to qualify for exclusion from California use tax

The recent approval of the 2004-2005 California Budget included Senate Bill 1100 that replaces the existing 90-day test with a 12-month test to determine whether the out-of-state purchase of a vehicle, vessel, or aircraft was a purchase for the purpose of storage, use, or other consumption in California and subject to California use tax.

Beginning October 1, 2004,¹ it is presumed that any vehicle, vessel, or aircraft purchased outside California and brought into California within 12 months from the date of its purchase is acquired for storage, use, or other consumption in California and is subject to tax if any of the following occur:

- The vehicle, vessel, or aircraft is purchased by a California resident as defined in section 516 of the California Vehicle Code,² or
- In the case of a vehicle, the vehicle is subject to California registration during the first 12 months of ownership, or
- In the case of a vessel or aircraft, the vessel or aircraft is subject to California property tax during the first 12 months of ownership, or
- The vehicle, vessel, or aircraft is used or stored in California more than one-half of the time during the first 12 months of ownership.

In order to overcome the presumption, documentary evidence must be provided to show that the vehicle, vessel, or aircraft was purchased for use outside California during the first 12 months of ownership. This evidence may include, but is not limited to, evidence of registration of that vehicle, vessel, or aircraft, with the proper authority, outside of California.

The new law does not apply to the purchase of a vehicle, vessel, or aircraft that is "used in interstate or foreign commerce pursuant to regulations prescribed by the board."

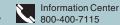
In addition, out-of-state purchases of aircraft or vessels that are brought into this state for the limited purpose of repair, retrofit, or modification are not necessarily considered purchases for storage, use, or other consumption in this state. However, there are limitations on the amount of sailing time or airtime that can be logged while the vessel or aircraft is in California for these purposes without subjecting the use of the aircraft or vessel to tax. Please see our website or call our Information Center for more information.

The new law with the 12-month test will be in effect until July 1, 2006.

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¹The provisions of SB 1100 do not apply if a vehicle, vessel, or aircraft is purchased—or is the subject of a binding purchase contract that is entered into—on or before October 1, 2004.

²Section 516 provides in part that a "resident" means any person, including a natural person, firm, partnership, association, limited liability company, or corporation, who shows an intent to live or be located in California on more than a temporary basis. Presence in California for six months or more in any 12-month period creates a rebuttable presumption of residency, as evidenced by factors including address where registered to vote and location of place of employment or business.





Sales and use tax rates by county, as of October 1, 2004 (includes state, local, and district taxes)

Note: The tax rates in some cities and counties may change in 2005 if voters approve the creation of new tax districts in the November election.—Editor

County	Rate	County	Rate
Alameda	8.75%	Orange	7.75%
Alpine	7.25%	Placer	7.25%
Amador	7.25%	Plumas	7.25%
Butte	7.25%	Riverside	7.75%
Calaveras	7.25%	Sacramento	7.75%
Colusa	7.25%	San Benito	7.25%
Contra Costa	8.25%	San Bernardino	7.75%
Del Norte	7.25%	San Diego	7.75%
El Dorado *	7.25%	San Francisco	8.50%
Fresno*	7.875%	San Joaquin	7.75%
Glenn	7.25%	San Luis Obispo	7.25%
Humboldt*	7.25%	San Mateo	8.25%
Imperial*	7.75%	Santa Barbara	7.75%
Inyo	7.75%	Santa Clara	8.25%
Kern	7.25%	Santa Cruz *	8.00%
Kings	7.25%	Shasta	7.25%
Lake*	7.25%	Sierra	7.25%
Lassen	7.25%	Siskiyou	7.25%
Los Angeles *	8.25%	Solano	7.375%
Madera	7.75%	Sonoma*	7.50%
Marin	7.25%	Stanislaus	7.375%
Mariposa	7.25%	Sutter	7.25%
Mendocino *	7.25%	Tehama	7.25%
Merced	7.25%	Trinity	7.25%
Modoc	7.25%	Tulare*	7.25%
Mono	7.25%	Tuolumne	7.25%
Monterey	7.25%	Ventura	7.25%
Napa	7.75%	Yolo*	7.25%
Nevada*	7.375%	Yuba	7.25%

^{*} District taxes. Many cities in California impose a district tax, which results in a higher sales and use tax rate than in other parts of the county. The following tax rates apply within the city limits of the listed community.

County	City	Citywide Rate	County	City Citywi	ide Rate
El Dorado	Placerville	7.50%	Nevada	Town of Truckee	7.875%
Fresno	Clovis	8.175%	Santa Cruz	Santa Cruz	8.25%
Humboldt	Trinidad	8.25%	Sonoma	Sepastopol	7.625%
Imperial	Calexico	8.25%	Tulare	Visalia	7.50%
Lake	Clearlake	7.75%	Yolo	Davis	7.75%
Los Angeles	Avalon	8.75%	Yolo	West Sacramento	7.75%
Mendocino	Point Arer	na 7.75%	Yolo	Woodland	7.75%
Mendocino	Willits	7.75%			

A simple "thank you" is enough

During the upcoming holiday season, many businesses offer gifts to their customers, suppliers, and others with whom they do business. We must ask, however, that you not extend your generosity to our employees. A simple "Thank You" or "Happy Holidays" will do—and will be much appreciated. Board policy prevents our employees from accepting gifts of any type.

Annual Taxpayers' Bill of Rights hearings

Date correction for Sacramento

If you have suggestions for improving our services, you can share your ideas with the elected Members of the Board at one of our annual Taxpayers' Bill of Rights hearings. You can share your proposal in writing, or you can address the Board Members in person.

This year's hearings will be held September 22 in Culver City (following the normal business meeting, which starts at 9 a.m.) and October 19 in Sacramento (following the normal business meeting, which starts at 9:30 a.m.).

If you are interested in attending, please let us know by contacting us online at www.boe.ca.gov/tra/tra.htm, calling a local Board office, or calling the Taxpayers' Rights Advocate Office, toll-free, at 888-324-2798.

Small Business Fairs

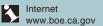
We invite current and potential business owners to attend one of our upcoming Small Business Fairs, which offer informative workshops on federal, state, and local tax and business requirements. These fairs are free, but reservations are recommended.

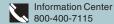
Upcoming Fair

Burbank, October 28 Holiday Inn Burbank For more information, call our Van Nuys Office 818-901-5690.

To check for other upcoming fairs, please visit our website at www.boe.ca.gov/sutax/tpsched.htm.

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Passage of bond measure affects partial tax exemptions

(reprint from the June 2004 *Tax Information Bulletin*)

Some sales qualify for a partial tax exemption. They are exempt from the state's general fund portion of the total sales and use tax rate (the total rate is made up of a state and a city/county portion). As explained below, beginning July 1, 2004, eligible purchases are exempt from 5.25% (the state portion) of the total sales and use tax rate.—Editor

In March 2004, California voters approved Proposition 57 (bond measure), which provides for a 0.25% increase in the state rate and a decrease of 0.25% of the local tax rate. The statewide tax rate remains unchanged and the way you complete your tax returns—including local tax schedules—will not change. You will only see a change if you have sales or purchases that qualify for a partial exemption from sales and use tax.

Partial Tax Exemptions. The following regulations provide an exemption from the state's portion of the sales and use tax rate:

- 1525.7, Rural Investment Tax Exemption
- 1532, Teleproduction or Other Postproduction Service Equipment
- 1533.1, Farm Equipment and Machinery
- 1533.2, Diesel Fuel Used in Farming Activities or Food Processing
- 1534, Timber Harvesting Equipment and Machinery
- 1535, Racehorse Breeding Stock

These partial tax exemptions are exempt from the 0.25% increase in the state portion of the tax rate. Therefore, beginning July 1, 2004,

the partial tax exemptions increased from 5.00% to 5.25%. To calculate the tax rate for a qualifying transaction, subtract 5.25% from the tax rate that would apply if the transaction were fully taxable. For example, if the full tax rate that would apply to a taxable sale is 7.75%, the tax rate

for a qualifying sale is 2.50% (7.75% - 5.25% = 2.50%).

To read the regulations listed in the previous column, please visit our website at www.boe.ca.gov/sutax/staxregs.htm. Or call our Information Center for a copy of the regulation.

New or revised reference material

Sales and Use Tax Publications

17	Appeals Procedures: Sales and Use Taxes and Special Taxes	(7-04)
22	Tax Tips for the Dining and Beverage Industry	(6-04)
31	Tax Tips for Grocery Stores	(7-04)
47	Mobilehomes—Factory-Built Housing, Sales and Use Taxes	(4-04)
51	Guide to Board of Equalization Services	(5-04)
66	Tax Tips for the Agricultural Industry	(7-04)
73	Your California Seller's Permit	(5-04)
107	Do You Need a California Seller's Permit?	(6-04)
109	Are Your Internet Sales Taxable?	(5-04)

Special Taxes

84 Do You Need a California Fuel Permit or License? (5-04)

Sales and Use Tax Regulations

- 1614 Sales to the United States and its Instrumentalities (revised) May 25, 2004
- 1828 Process for Reviewing Transactions and Tax Distribution Inquiries (new) June 17, 2004

Translated Publications

- 78-S Sales of Cigarettes and Tobacco Products in California (May 2004) Spanish
- 107-S Do You Need a California Seller's Permit? (June 2004) Spanish
- **** *Correction:* Striking Gold in California (2003 edition) Spanish (the publication had been erroneously listed as available in Vietnamese)

For More Information

All telephone numbers are toll-free

Internet www.boe.ca.gov ■ www.taxes.ca.gov

Information Center 800-400-7115
TDD/TTY: 800-735-2929

Requests for Fax Copies 800-400-7115 (Choose automated services)

Seller's Permit Verification 888-225-5263 ■ www.boe.ca.gov

Taxpayers' Rights Advocate 888-324-2798 ■ www.boe.ca.gov

Tax Evasion Hotline 888-334-3300

State Legislation www.leginfo.ca.gov/bilinfo.html

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